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Open Competitive Examination for Recruitment of Audit Examiners to Grade II of the Audit Examiners' Service – 2016

(01) Accounting

Three hours

Answer **all** questions.

1. (a) The following extracts are taken from the accounts books as at 31.03.2016 of Water Tech Company Ltd. which produces water filters.

	Rs.
Purchase of raw materials	1 464 000
Direct wages	220 000
Carriage inwards expenses	10 000
Factory rent	88 000
Sales	2 520 000
Electricity for factory	124 000
Factory supervision	180 000
Indirect materials	52 000
Depreciation on machinery	48 000
Inventories Balance as at 01.04.2015	
Raw materials	240 000
Finished goods (60 units)	552 000
Work in progress	70 000

You are given the following additional information.

(i) Inventories as at 31.03.2016.

- Raw materials Rs. 180 000
- Work in progress Rs. 92 000

(ii) Two water filters were donated to a hospital and raw materials valued at Rs. 24 000 were destroyed by fire within the year. No entries were made in the books.

(iii) There were 78 number of water filters as at 31.03.2016 at the factory.

(iv) 180 water filters were sold within the year. It included opening stock of 60 water filters.

Required:

Prepare a manufacturing and trading account for the year ended 31.03.2016 showing the following information clearly.

- Cost of raw materials used
- Prime cost
- Total production cost
- Value of closing stock of finished goods on the basis of total production cost
- Cost of sales

(b) Name **two** costing methods that can be used to estimate the value of stocks of a business organization.

(40 marks)

2. The trial balance prepared as at 31.03.2016 of Araliya Company Ltd is as follows.

	Rs. '000	
	Dr	Cr
Share capital		2350
Vehicle loan		600
Sales		10000
Inventory as at 01.04.2015	400	
Purchases	6500	
Carriage inwards cost	400	
Employees salary	800	
Director's remuneration	500	
Audit fee	100	
Bad debts	50	
Provision for doubtful debts 01.04.2015		30
Bank charges	20	
Debenture interest paid upto 31.12.2015	90	
Sales commissions	200	
Distribution expenditure	150	
Lease income received		210
Administration expenditure	230	
Debentures 12%		1000
Discount received		100
Provision for income tax as at 01.04.2015		200
Income tax paid	550	
Debtors	230	
Creditors		100
Lands at cost	2500	
Delivery vehicles at cost	1800	
Office equipments at cost	1000	
Accumulated depreciation at 01.04.2015		
- Delivery vehicles		630
- Office equipments		300
	15 520	**15 520**

The following information are also given.

(i) Cost of inventory as at 31.03.2016 is Rs. 300 000. The net realization value of the inventory is Rs. 350 000.

(ii) A land belonging to the company has been leased out from 2014 at the rate of Rs. 10 000 per month. The rate was increased up to Rs. 20 000 per month from January 2016.

(iii) It was decided to write off Rs. 30 000 more as bad debts. Meanwhile provisions for doubtful debts should be adjusted to 10% of remaining balance of debtors.

(iv) New office equipments valued at Rs. 500 000 were bought on 01.01.2016 for the use of the office. This has been reported as purchases. Office equipments are depreciated at 20% on the reducing balance method.

(v) A new vehicle was bought at Rs. 800 000 on 01.10.2015. When the vehicle was bought, a vehicle which had been bought at the cost of Rs. 500 000 on 01.10.2013 was exchanged at the value of Rs. 200 000. The balance of Rs. 600 000 was settled by borrowing a loan from bank at the rate of interest of 14% per annum. The loan of Rs. 600 000 obtained was debited to the

delivery vehicle account as the cost of the new vehicle and credited to the loan account other than this no other entries have been made regarding this. Delivery vehicles are depreciated at 20% on cost annually.

(vi) The income tax paid Rs. 150 000 within the year belongs to the year of assessment 2014/2015. The estimated income tax is Rs. 750 000 for the year 2015/2016.

(vii) Prepayments and accrual payments are as follows as at 31.03.2016.

	Prepayments	Accruals
	Rs.	Rs.
Distribution expenditure	50 000	-
Administrative expenditure	75 000	45 000

Required:

(1) The income statement for the year ended 31.03.2016 suitable for publication in columnar form.

(2) The balance sheet as at 31.03.2016 showing the financial position of the company.

N.B. The statement of non-current assets and accumulated depreciation with changes and expenditure classification should be provided as notes separately.

(60 marks)

3. Rohana did not keep Accounting records properly in his business. However, there was a balance of Rs. 50 000 in cash on 31.03.2016. The owner suspects that there should be a cash balance more than this and that the cashier has taken away some money.

You are provided the following information.

(i) The summary of bank transactions within the year.

	Rs.	Rs.
Balance according to the bank statement at 01.04.2015	12 000	
Add :- Deposits	650 000	
		662 000
Less : payments		
To trade creditors	330 000	
Salary	120 000	
Operation expenditure	280 000	(730 000)
Bank overdraft balance according to the bank statement at 31.03.2016		(68 000)

(ii) Balances of trade debtors and trade creditors.

	01.04.2015	31.03.2016
	Rs.	Rs.
Trade debtors	250 000	100 000
Trade creditors	120 000	200 000

(iii) The cash sales of Rs. 250 000 is included in total sales of Rs. 850 000. Discount received and discount allowed are Rs. 5 000 and Rs. 8 000 respectively within the year.

(iv) Rs. 2 000 was written off as bad debts and return outward and return inward are Rs. 4 000 and Rs. 6 000 respectively.

(v) Rohana has instructed to deposit the cash balance of Rs. 40 000 as at 01.04.2015 and the cash received within the year except the expenditure on operation activities and drawings borne out of received money.

(vi) Operation expenditure of Rs. 140 000 and drawings of Rs. 15 000 were incurred in cash within the year.

Required:

(1) Prepare the Debtors' control account and Creditors' control account.

(2) Prepare a cash flow statement, showing the cash balance that should be at 31.03.2016 and find out the cash taken away by the cashier.

(20 marks)

4. Richo company uses the method of First In First Out (FIFO) to pricing the issuing raw materials. The following transactions occurred within the first quarter of the year in relation to material "X".

January 30 - purchased 100 units at Rs. 10 each

February 12 - purchased 50 units at Rs.12 each

February 18 - issued 110 units

March 06 - purchased 50 units at Rs. 13 each

March 20 - issued 80 units

Required:

(1) Prepare the "stock ledger card' showing the value of stock clearly at 31st March in columnar form.

(2) State the advantages and disadvantages of the First In First Out (FIFO) method.

(20 marks)

5. (i) Briefly explain the term "Accounting Fundamentals".

(ii) Why it is important the "General Acceptance" of Accounting fundamentals?

(iii) Name **two** significant sources leads to improve the accounting fundamentals in Sri Lanka.

(10 marks)

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Open Competitive Examination for Recruitment of Audit Examiners to
Grade II of the Audit Examiners' Service – 2016

(02) Cost Accounting

Two hours

Answer **all** questions.

1. From the following statements extracted from *ABC* company, prepare a month by month cash budget for the six month ending 31 December 2016.

(a)

	Rs. (000)	Rs. (000)
Sales (cash received one month in arrears)		2 400
Cost of sales :		
Paid one month in arrears	1 800	
Paid in month of purchase	288	
Depreciation	144	2 232
Budgeted Profit		168

(b) **Capital Budget:**

	Rs. (000)	Rs. (000)
Payments for new plant:		
July	24	
August	50	
September	26	
November	100	200
Increase in stocks, payable in August		40
		240
Receipts :		
New issue of share capital (October)		60

(c) **Balance Sheet:** Actual, 1 July 2016

	Rs. (000)	Rs. (000)
Assets :		
Fixed assets	1 440	
Stocks	200	
Debtors	420	
Cash	80	2 140
Liabilities :		
Capital and reserves	1 712	
Taxation (payable in December)	60	
Creditors-Trade	320	
Dividends (payable in August)	48	2 140

(25 marks)

2. The standard cost per one litre of vegetable oil is shown below :

	Rs.
Direct materials (4kg at Rs. 6/kg)	24
Direct labour (5 hours at Rs. 8/hour)	40
Variable overhead	10
Fixed overhead	30
Standard cost per litre	104

The standard selling price of vegetable oil is Rs. 120/litre and the budgeted quantity to be produced and sold in each period is 10 000 litres. It may be assumed that variable overheads vary directly with the number of litres produced.

The actual results achieved during **period 4** were :

	Rs. (000)	Rs. (000)
Sales (9 500 litres)		1 177
Cost of sales :		
Direct materials (37 000 kg)	240	
Direct labour (49 000 hours)	400	
Variable overheads	94	
Fixed overheads	290	1 024
Profit		153

There were no stocks of work–in–progress or finished goods at the beginning or end of the period.

(a) Calculate the followings variances for **period 4** :

(i) Material Price Variance

(ii) Material Usage Variance

(iii) Direct Labour Rate Variance

(iv) Labour Efficiency Variance

(v) Variable Overhead Expenditure Variance

(vi) Fixed Overhead Expenditure Variance

(vii) Fixed Overhead Volume Variance

(viii) Sales Margin Price Variance

(ix) Sales Margin Volume Variance

(b) Prepare a statement reconciling the budgeted and the actual profit for the period 4.

(29 marks)

3. *XY* Company produces steam irons in three production departments (Machining, Assembling and Finishing) and two services departments (Materials Handling and Production Control)

Costs for last month, when 2 000 Irons were produced, were as follows :

Materials :

Machine shop	Rs.	250 000
Assembly	Rs.	140 000
Finishing	Rs.	50 000
Materials handling	Rs.	4 000

Wages :

Machining	– 10 000 hours at	Rs.4 per hour
Assembly	– 5 000 hours at	Rs.3 per hour
Finishing	– 3 000 hours at	Rs.3.50 per hour
Materials handling	Rs. 8 000	
Production control	Rs. 11 200	

Other costs :

Machine shop	Rs.	41 920
Assembly	Rs.	12 960
Finishing	Rs.	7 920
Materials handling	Rs.	8 000
Production control	Rs.	2 400

It is estimated that the benefit derived from the service departments is as follows :

Production Control :

Machine shop	40%
Assembly	30%
Finishing	20%
Materials handling	10%

Materials Handling :

Machine shop	60%
Assembly	30%
Finishing	10%

(a) Prepare a statement showing the overhead allocated and apportioned to each of the production departments.

(b) Calculate the unit cost of steam iron. *(24 marks)*

4. Agro Product Company manufactures a special product 'A'. The following particulars were collected for the year 2015.

Normal usage	: 50 units per week
Minimum usage	: 25 units per week
Maximum usage	: 75 units per week
Cost of placing order	: Rs. 200
Annual carrying cost per unit	: Rs. 26
Re-order period	: 4 to 6 weeks

Using the above information compute the followings.

(i) Re–Order Quantity (ROQ/EOQ)

(ii) Re–Order Level (ROL)

(iii) Minimum Stock Level

(iv) Maximum Stock Level

(v) Average Stock Level

(12 marks)

5. A product has the following operating particulars for sales of 1 000 units.

Sales	Rs. 10 000
Variable costs	Rs. 6 000
Fixed costs	Rs. 2 500

Compute the followings.

(i) Contribution to Sales Ratio (C/S ratio)

(ii) break-even point sales and units

(iii) margin of safety

(iv) the sales volume required to increase profits to Rs. 2 000. (units)

(10 marks)

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(03) Auditing

Three hours

Answer **all** questions.

1. (i) Explain the difference between External Audit and Internal Audit. *(15 marks)*
   (ii) What are the common areas of interest to both, External and Internal auditors? *(10 marks)*

2. (i) What is the role of the Auditor General as stated in the Constitution of Sri Lanka? *(16 marks)*
   (ii) What are the rights of the Auditor General given to him by the Constitution to perform his functions? *(09 marks)*

3. Explain in brief.
   (i) Internal Control and Internal Check.
   (ii) Vouching approach and Systems approach.
   (iii) Tests of Control and Substantive tests.
   (iv) Current liabilities and Contingent liabilities.
   (v) Permanent Audit file and Current Audit file.

   (05 × 5 = 25 marks)

4. "An auditor should express an opinion on the financial statements he audits in terms of Sri Lanka Auditing standards."
   (i) Explain the circumstances under which an auditor can express an "**unqualified** opinion". *(05 marks)*
   (ii) Enumerate the instances where "**unqualified** opinion" **cannot** be expressed. *(08 marks)*
   (iii) Explain the term "limitation of Scope" in relating Audit opinion. *(12 marks)*

5. Explain how you would vouch/verify following items appearing in the year end financial statements you received for audit.
   (i) Closing Stock
   (ii) Land and Buildings
   (iii) Bank Overdraft
   (iv) Work in progress
   (v) Provision for depreciation on Non Current Assets

   (05 × 5 = 25 marks)

6. Write short notes on,
   (i) Accounting ratios
   (ii) Internal Control Questionnaires
   (iii) Materiality
   (iv) Letter of Representation
   (v) Events occurring after the Balance sheet Date

   (05 × 5 = 25 marks)

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Open Competitive Examination for Recruitment of Audit Examiners to Grade II of the Audit Examiners' Service – 2016

(04) Business Mathematics and Statistics

Two hours

- Answer **five** questions only including question **one** in part **(A)** and **two** questions each from parts **(B)** and **(C)**.
- Question one in part **(A)** carries 40 marks with 05 marks for each part. Each question in parts **(B)** and **(C)** carries 15 marks to make a total of 60 marks. (log tables, statistical tables and graph papers will be provided.)

Part (A)

1. State the number (1), (2) or (3) of the relevant answer in front of the question number in your answer script.

(i) Roots of the equation (5-2x)(3+x) = 0 are,

(1) $-\frac{5}{2}, -3$ (2) $\frac{5}{2}, 3$ (3) $\frac{5}{2}, -3$

(ii) Coordinates of the intersection point of the equation $4y = 6x - 36$ and the x-axis is,

(1) (0 , –9) (2) (9 , 0) (3) (6 , 0)

(iii) Value of the expression $(a-b)^{\frac{a}{c}}$ when a = 6, b = –2 and c = 3 is,

(1) 64 (2) 16 (3) 8

(iv) If an amount of Rs. 12 000/= is invested at a simple interest rate of r % per annum to obtain an amount of Rs. 17 400/= after 3 years, then the value of r is,

(1) 10% (2) 12% (3) 15%

(v) The value of $\frac{(n+1)!}{(n-1)!} - n^2$ where n is a positive integer is,

(1) n (2) 1 (3) $2n$

(vi) A discount of 10% is given on the marked price of an item when selling it. If the sale price is Rs. 810/=, the marked price of the item in rupees is,

(1) 729 (2) 891 (3) 900

(vii) Two balls are drawn randomly from a bag containing 5 red balls, 4 white balls and 6 blue balls which are identical. What is the probability of the two balls being white and blue in colour?

(1) $\frac{4}{35}$ (2) $\frac{6}{35}$ (3) $\frac{8}{35}$

(viii) The 90th term of the progression of 2, 5, 8, 11, ... is,

(1) 536 (2) 272 (3) 269

Part (B)

2. The revenue and the cost functions of a firm are given by $R = -x^2+800x$ and $C = 150x + 30\ 000$ respectively, where x is the number of units produced and sold. Sketch the graphs of the revenue and cost functions on the same coordinate system. By using the graphs, determine the followings.
   (i) the point where the revenue is equal to the cost
   (ii) the level of sales at that maximum profit
   (iii) the maximum profit that would be obtained by the firm

3. (i) Two ladies and three gentlemen have to sit on 5 chairs arranged in a row. In how many different ways can they be seated if the two ladies do not sit next to each other?
   (ii) How long will it take any sum of money to double at an annual interest rate of 8% compounded quarterly?

4. (i) The product of the first three terms of a geometric progression is 512 and the fifth term of that progression is 64. Find the first term and common ratio of that geometric progression.
   (ii) A manager of a sports goods store estimates that 10% of the students at a nearby school play badminton and 5% play cricket. Of those who play badminton, 40% play cricket as well.
      (a) What percentage of students play both Badminton and Cricket?
      (b) What percentage of students **do not** play either of these two games?
      (c) What is the probability that a selected student plays Badminton if it is known that he plays Cricket?

Part (C)

5. (i) Explain the importance of central tendency measurements and name **three** of them.
   (ii) Following table represents the mass of 100 students of a certain university.

Mass (kg)	Number of Students
60 - 62	05
63 - 65	18
66 - 68	42
69 - 71	27
72 - 74	08
Total	100

   (a) What is the model class?
   (b) Find the mean and variance of the masses.
   (c) Calculate the percentage of students whose mass is more than 68 kg.

6. (i) Name **four** components of a time series.
   (ii) Name **two** method which are commonly used to estimate the Trend.
   (iii) The data given below represents the number of cars sold per year by a local car dealer.

Year	2001	2002	2003	2004	2005	2006	2007
Number of cars	1010	1125	1170	1275	1394	1520	1580

   Estimate the equation of the Trend line using the method of least squares.

7. A simple random sample of 50 people is selected in order to estimate the mean television viewing time per week of the people living in a particular city. It is known that the population standard deviation is 3.8 hours.
   (i) Calculate the standard error of the sample mean.
   (ii) If the sample mean viewing time is 15 hours, construct a 95% confidence interval for the population mean.

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(05) Environment

Three hours

Answer **six** questions only, selecting **two** questions from each part.

Part I - Economics

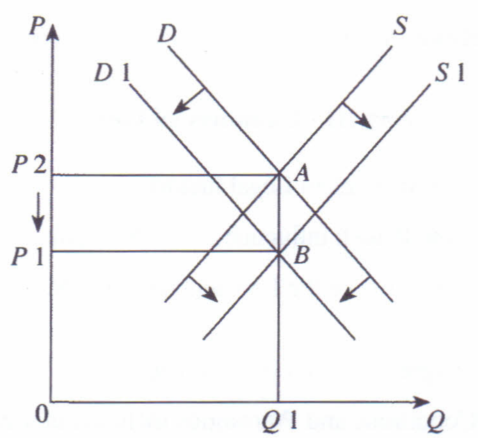
1. (i) State **five** special characteristics of economic goods or financial goods. *(05 marks)*

(ii) Explain separately what is meant by 'Micro Economics' and 'Macro Economics'. *(10 marks)*

(iii) Explain what are the main characteristics of a Capitalist Economic System. *(10 marks)*

2. (i) Explain separately 'Direct Demand' and 'Derived Demand'. *(05 marks)*

(ii) The following diagram explains the increase in supply and the decrease by an equal amount in demand.



Explain using the diagram the changes that can happen within the market accordingly. *(10 marks)*

(iii) What are the similarities and differences between 'Monopolistic Competition' and 'Perfect Competition'. *(10 marks)*

3. (i) Define 'Gross Domestic Product' and 'Gross National Product' separately. *(05 marks)*

(ii) State what are the benefits of calculating the National Income. *(10 marks)*

(iii) Explain using a relevant diagram 'Consumer Surplus' and 'Production Surplus'. *(10 marks)*

4. (i) Explain briefly what is meant by the opportunity cost of money. *(05 marks)*

(ii) Explain the reasons for introducing the Central Bank as the Bank of the Bankers and as the Bank of the Government. *(10 marks)*

(iii) Define what is meant by 'Money Laundering' and describe what are the economic consequences happening through this. *(10 marks)*

Part II - General Commercial Knowledge

5. (i) Classify files according to subject matter. *(05 marks)*

(ii) State what advantages can be obtained to an office through the Open Office Layout. *(10 marks)*

(iii) Explain what basic facts should be included in a file minute. *(10 marks)*

6. (i) State **five** reasons why a Bill of Lading is important to an exporter. *(05 marks)*

(ii) State the reasons why Re Export Trading is important to Sri Lanka. *(10 marks)*

(iii) Explain the **disadvantages** from International Trade to our country. *(10 marks)*

7. (i) State **five** benefits gained by Sri Lanka through the GSP+. *(05 marks)*

(ii) Explain respectively the Import Procedure. *(10 marks)*

(iii) Explain with examples how Insurance could contribute to the economic development of a country. *(10 marks)*

8. (i) Describe the various ways in which a cheque could be dishonoured. *(05 marks)*

(ii) State the reasons which influenced the Cooperative Movement **not** to be as efficient as the Private Sector. *(10 marks)*

(iii) Explain the differences between a Partnership and a Joint Venture. *(10 marks)*

Part III - Commercial Law

9. (i) State the **four** main era of the Sri Lankan Legal history. *(05 marks)*

(ii) Give a brief explanation of the British influence on the Sri Lankan Law. *(10 marks)*

(iii) Explain the close relationship between the Law and the Society. *(10 marks)*

10. (i) What are the stages when a agreement can be terminated? *(05 marks)*

(ii) Define what is meant by Conditions and Warranties included in a contract and explain its importance. *(10 marks)*

(iii) Explain what is meant by "wrongly stated" and mention what are the requirements to be fulfilled by the innocent party to obtain damages under such circumstances. *(10 marks)*

11. (i) Define what is meant by the 'Judiciary'. *(05 marks)*

(ii) Explain the role of the Judiciary. *(10 marks)*

(iii) 'A fine indicator to measure the democratic nature of a country is the independence of the Judiciary'. Explain this critically. *(10 marks)*

12. (i) When an appeal is made against a decision granted by a Labour Tribunal, a certain amount of money relevant to each of these decisions should be deposited at the Labour Tribunal. State **three** instances including such decisions and the relevant amount of money to be deposited. *(05 marks)*

(ii) State what are the instances when hearing of an application forwarded to a Labour Tribunal can be postponed or suspended. *(10 marks)*

(iii) Explain what should the labourers do when an industrial dispute occurs. *(10 marks)*

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